



PAGE PETROLEUM LTD
1976 annual report

OFFICERS

LAWTON L. CLARK, President
C. DEREK GOULD, Vice President
BRIAN G. McCOMBE, Secretary
MORI J. OHARA, Treasurer

DIRECTORS

LAWTON L. CLARK
President, Page Petroleum Ltd.
Amarillo, Texas
C. DEREK GOULD
Vice President, Page Petroleum Ltd.
Calgary, Alberta
HARRY A. IRVING
President, Irving Industries
(Irving Wire Products Division) Ltd.
Calgary, Alberta
BRIAN G. McCOMBE
Barrister and Solicitor,
McCombe, Cameron & Cormie
Calgary, Alberta

CAPITALIZATION

Authorized 5,000,000 common shares,
No Par Value
Issued Capital — 1,410,086 shares

REGISTERED OFFICE

200 Bradie Building
630 - 6th Avenue South West
Calgary, Alberta
T2P 0S8

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
Calgary and Toronto

AUDITORS

Collins Barrow
Second Floor, Pacific 66 Plaza
700 - 6th Avenue South West
Calgary, Alberta
T2P 0T8

LEGAL COUNSEL

McCombe, Cameron & Cormie
901, 441 - 5th Avenue South West
Calgary, Alberta
T2P 2V1

Stubbeman, McRae, Sealy, Laughlin & Browder
Midland Savings Building
P.O. Box 1540
Midland, Texas 79701

BANKING

The Canadian Imperial Bank of Commerce
309 - 8th Avenue South West
Calgary, Alberta
T2P 2P2

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol "PGE"

SUBSIDIARIES

Page Petroleum Inc.
Incorporated in Delaware, U.S.A.
Page Petroleum (U.K.) Limited
Incorporated in the United Kingdom
Leaf Petroleums Ltd.
Incorporated in Alberta, Canada

FORM 10-K

Copies of this report and the Annual Report on Form 10-K filed with Securities and Exchange Commission of the United States are available free of charge by writing to the Company at 200, 630 - 6th Avenue South West, Calgary, Alberta, Canada T2P 0S8.

CORPORATE PROFILE

Page Petroleum Ltd. was incorporated in Alberta on August 13, 1971, following the amalgamation of Berkley Oil and Gas Ltd. and Canadian Fortune Oil Ltd.

The Company has continued and expanded the operations of its predecessor companies, acquiring oil and gas reserves through exploration, development and purchase. Its income is derived from oil and gas production and the sale of interests in exploration projects. Page has offices in Calgary, Alberta and Amarillo, Texas.

Page has traditionally operated in Western Canada, although in 1973 the Company expanded its operations into the United States. It is primarily a crude oil producer with interests in several light gravity Alberta oilfields.

As at December 31, 1976, Page's 1,410,086 outstanding shares were held by 1,139 registered shareholders. A total of 951 Canadian individuals and corporations held 67% of the shares. The Company had \$371,000 of convertible debentures outstanding owned entirely by Canadian individuals and corporations. If converted before August 1, 1977, these debentures will result in 148,400 additional shares. To date, the Company has declared no dividends, having retained all earnings for exploration and development.

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FINANCIAL AND OPERATING HIGHLIGHTS

	1976	1975	Increase (Decrease) Per Cent
FINANCIAL			
Gross income	\$ 719,582	\$ 823,894	(12.7)
Sales of oil and gas	\$ 708,875	\$ 756,923	(6.3)
Investment and other income	\$ 10,707	\$ 66,971	(84.0)
Total Expenses	\$ 767,769	\$ 661,581	16.1
Net Income	\$ 6,797	\$ 157,135	(95.7)
Per Common Share	\$.005	\$.11	
Funds Generated from Operations	\$ 277,635	\$ 505,017	(45.0)
Per Common Share	\$.20	\$.36	
Additions to Property and Equipment	\$ 943,550	\$ 822,397	14.7
Working Capital	\$ 90,908	\$ 192,324	(52.7)
Long Term Debt	\$2,408,231	\$1,846,233	30.4
Shareholders' Equity	\$1,830,648	\$1,819,851*	0.6
Common shares outstanding	1,410,086	1,408,486	
Number of shareholders	1,139	1,189	
OPERATIONS			
LAND HOLDINGS			
Gross Acres	2,605,262	3,445,273	(24.4)
Net Acres	143,020	319,814	(55.3)
DRILLING ACTIVITY			
Gross Wells Drilled	11	60	
Net Wells Drilled	2.4	6.6	
Net Wells Productive	1.5	3.3	
Net Wells Dry	0.9	3.3	
PRODUCTION — gross (before royalties)			
Crude Oil — barrels	124,720	144,186	(13.5)
Per day	341	395	
Natural Gas — mcf	164,121	190,563	(13.9)
Per day	448	522	
RESERVES — gross proven and probable			
Crude oil — barrels	4,527,000	4,352,000	4.0
Natural Gas — mcf	5,767,000	4,961,000	16.2
* See Note 4 — Notes to Consolidated Financial Statements.			

RANGE OF MARKET PRICES ON COMMON SHARES:

	Year	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
		High	Low	High	Low	High	Low	High	Low
Toronto	1974	3.90	3.40	3.45	1.60	1.98	0.95	1.60	0.90
Stock	1975	2.05	1.00	2.00	1.50	1.80	1.55	1.65	1.26
Exchange	1976	2.10	1.35	2.35	1.60	2.24	1.88	2.85	1.90

TO THE SHAREHOLDERS:

The past year was a good one for Page in many ways; however, operating and financial results were below expectations. Reduced revenues, coupled with higher operating costs and interest expense, adversely affected earnings and cash flow. Gross income was \$719,582, down 13% from \$823,894 in 1975. Oil and gas income, after royalties, decreased 6% from \$756,923 to \$708,875. Net income declined to \$6,797 (0.5¢ per share) from \$157,135 (11.1¢ per share). Funds generated from operations declined to \$277,635 (20¢ per share) from \$505,017 (36¢ per share) a year ago.

New oil production accruing to Page from Golden Spike and Boundary Lake was not sufficient to offset lower allowables at Mitsue and a rapid decline in Spraberry production in West Texas. However, production income should increase substantially in 1977 from continued development drilling in Canada, a pending Corporate acquisition and a potential increase in revenues from the United States.

Page participated in the drilling of 11 wells during 1976, 6 of which resulted in production. Of these, 4 were development wells drilled at Boundary Lake in northwestern Alberta. The Company now has an interest in 7 producers in the field (Boundary Lake South Triassic "H" Pool) and owns a 25% working interest in 2,080 acres and a 12½% interest in 320 acres of leases on the prospect. An independent consulting firm has prepared a waterflood study that anticipates the eventual drilling of 15 producing wells and 7 injector wells. Page added further reserves at Morrin and at Worsley, both in Alberta. Further details on these prospects are presented in the exploration section of this report.

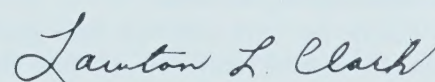
In the United States, Page participated in only two wells, both of which were dry. However, a gas discovery drilled late in the year offsetting the Company's John's Creek Prospect in Roberts and Hutchinson Counties, Texas may prove to be significant. This well was completed in the Upper Morrow and reported a

calculated open-flow potential of 11 mmcf per day. Page and partners will drill an offset well in May of this year. Page has a 12½% interest in 3,200 acres offsetting the discovery and a 25% interest in an additional 6,000 acres on the prospect. The Company plans to become more active in the United States, concentrating primarily on the deep portion of the Anadarko basin of Texas and Oklahoma.

In April of 1977, the Company entered into an agreement to acquire all the shares of Cowzanoil Ltd. and Magnolia Petroleums Ltd. in exchange for 392,766 shares of Page. The agreement is to be effective April 1, 1977, subject to the approval of the various regulatory bodies and acceptance of audited financial statements by the directors of the three companies. Cowzanoil, a privately owned Alberta company, produces 180 barrels per day after royalties and has 1,600 acres of undrilled proven and semi-proven leases in west-central Saskatchewan. Magnolia, a Saskatchewan company, also privately owned, produces a net 100 barrels per day in southwest Saskatchewan. These acquisitions are not reflected in the corporate, financial or operating statistics of the Company in this annual report.

The substantial increase in cash flow expected in 1977 will help finance the most active drilling year in the Company's history. Some 40 wells will be drilled on Page leases this year ranging in depth from 2,200-foot Viking wells at Dodsland, Saskatchewan to a 14,000-foot Upper Morrow well in Hemphill County, Texas. The company will retain a 100% working interest in most of the wells drilled in Canada.

Submitted on behalf of the Board of Directors:



April 11, 1977

President

EXPLORATION AND DEVELOPMENT

During 1976, Page participated in a total of 11 wells. Of these, 8 were in Canada, 2 in the U.S. and 1 in the North Sea. Four were completed as oil wells and 2 as gas wells.

WESTERN CANADA

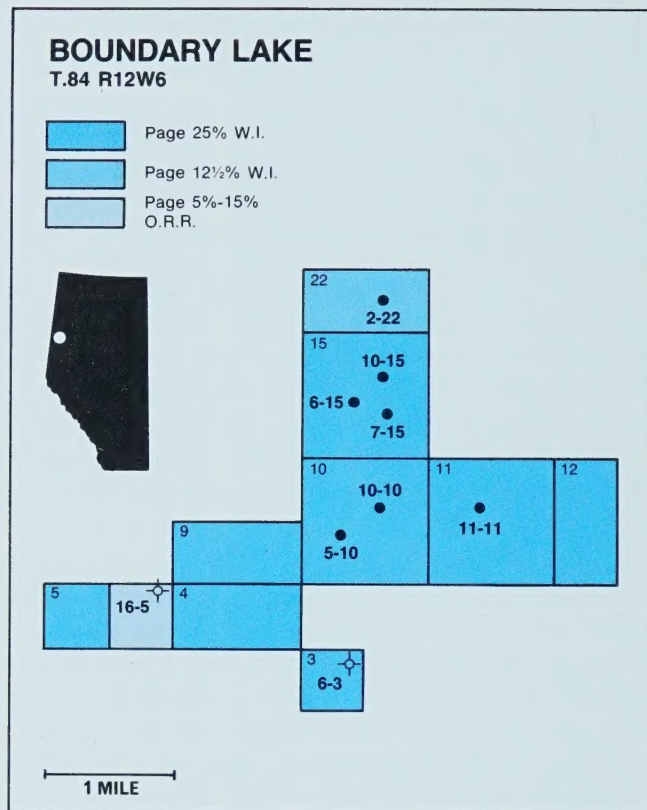
Seven development and field extension wells were drilled with four of these being completed as oil wells and two as gas wells. One 4,400-foot unsuccessful exploratory well was drilled at Michel near Edmonton.

Boundary Lake, Alberta

At Boundary Lake, in northwestern Alberta, Page has an average working interest of 23% in 2,560 acres. The Company participated in 5 development wells in 1976, 4 being completed as Boundary zone oilwells. Two additional oilwells were drilled and completed early in 1977. This field, now designated as the Triassic "H" Pool, produces 36° oil from 4,200 feet. Until a 12-mile pipeline is built later this year, oil is being trucked to a pipeline terminal. The current well-head price is \$8.345 per barrel. An independent consulting engineering firm has prepared a waterflood study of the field and recommends the drilling of up to 15 oilwells and 7 water injectors on the company lands. Current plans call for water to be injected early in 1978. Consulting engineers estimate Page's net waterflood reserves at Boundary Lake to be 1,000,000 barrels with net daily production expected to exceed 100 barrels.

Golden Spike, Alberta

During the year a 20-foot sour gas cap in the Nisku formation was produced through the 15A-34-51-27 W4M well and reinjected into the edge of the Nisku reservoir. The 15A-34 well now produces 100 barrels of liquids per day of which 65 barrels are oil. The gravity of the oil is 36° and the current wellhead price is \$9.86 per barrel. Consulting engineers estimate that the Nisku reservoir contains 358,000 barrels of recoverable oil. Page has a 45% working interest in the well and 640 acres in the D2-B pool.



Morrin, Alberta

The 7-15-31-20 W4M Basal Quartz oil and gas discovery well has been shut in since it was drilled in 1975. In 1976, a well was drilled at 11-16 and completed as a Glauconitic Sand gas discovery after yielding 1.8 mmcf per day on drillstem test. The wells are scheduled to be connected in 1977, with gas going south to the Ghost Pipe Unit gas plant. Oil will be trucked from the lease until production justifies an oil pipeline. Page has a 25% interest in 4,760 acres and a 40% interest in 640 acres on the prospect.

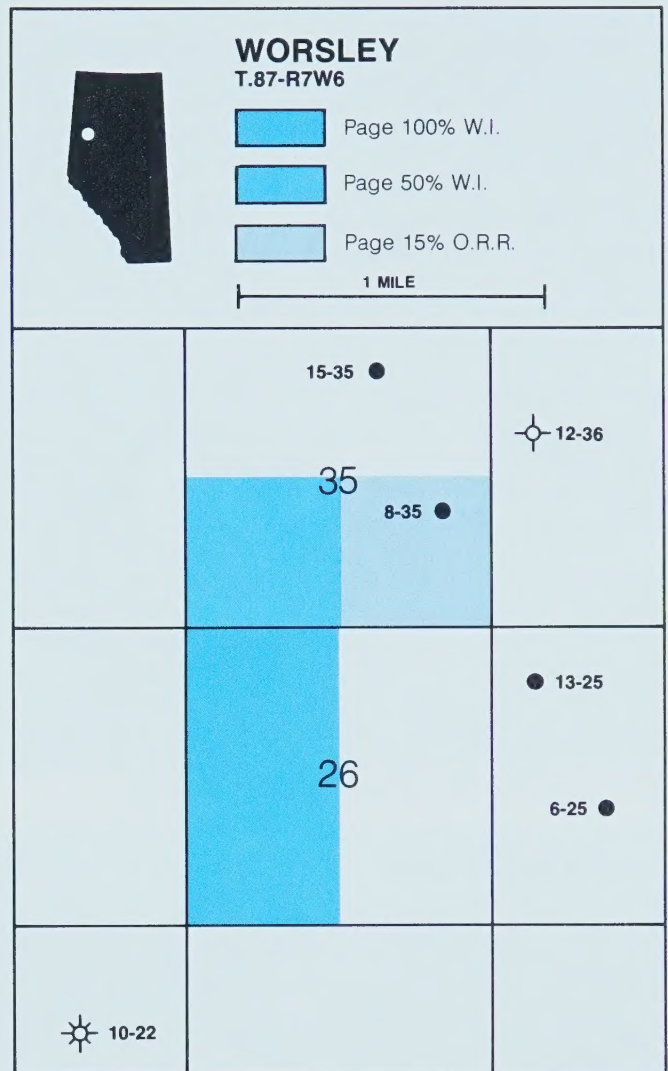
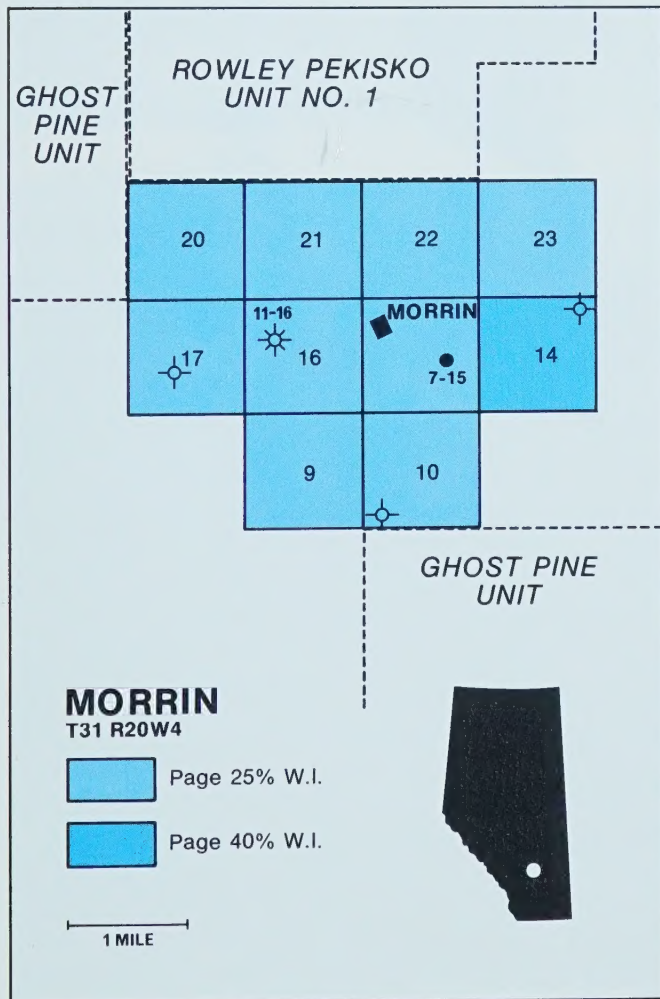
Mitsue, Alberta

Page has varying interests in 4,160 acres of leases within and adjacent to the 195-square-mile Mitsue Gilwood Sand A Unit. This field has been producing oil for over 13 years and has been under waterflood for the past 9 years. Page's net proven oil reserves in the unit are calculated to be 757,000 barrels. The Company's net share of production is currently 130 barrels per day. The 40° oil sells for \$10.03 per barrel.

Worsley, Alberta

In 1976, Shell drilled and completed a 4,200-foot Worsley zone oil discovery adjacent to Page lands. In early 1977, Shell exercised its option to earn an interest in Page's lease in S $\frac{1}{2}$ 35-87-7 W6 by drilling a well at 8-35. The well was completed as a Worsley zone oil producer and tested at rates in excess of 100 barrels per day. Page retains a 15% overriding royalty convertible to a 50% working interest after payout. Shell has the option to earn a similar interest in the company's lease in W $\frac{1}{2}$ 26-87-7 W6M. It is likely that Shell and Page will drill one or more joint-interest wells later in the year.

Recoverable reserves are estimated at 300,000 barrels per 160-acre spacing unit. The 35° API gravity oil will be trucked 90 miles to a pipeline terminal where the oil price is \$9.17 per barrel. Well allowables are expected to exceed 50 barrels per day.



UNITED KINGDOM

Page operates in the U.K. through its wholly owned subsidiary, Page Petroleum (UK) Limited. A 12,770-foot well, Premier North Sea 29/8b-1, was drilled at no cost to Page on holdings in which the Company has retained a 1.8% working interest. Although this North Sea well was unsuccessful, the information it provided justified further studies. A small detailed seismic program is planned for the area in 1977.

Page plans no further exploration on its lands held jointly with Shell Oil in Wiltshire.

ALASKA

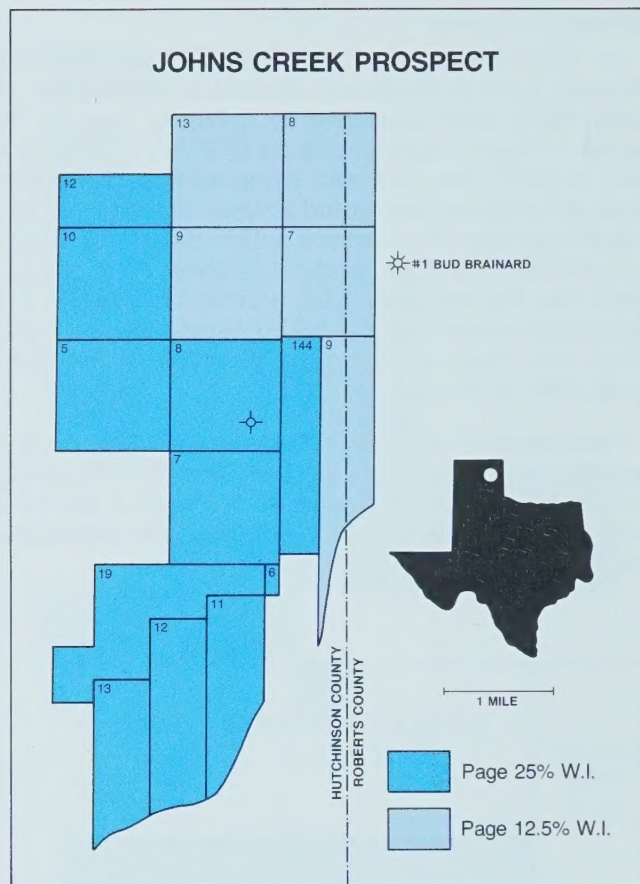
The Company continues to hold a 12 $\frac{1}{2}$ % interest in lease applications covering 236,194 acres. The applications, held since 1970, are awaiting settlement of a federal and state ownership dispute.

UNITED STATES

Page operates in the U.S. through Page Petroleum Inc., a wholly owned subsidiary with headquarters in Amarillo, Texas. The Company participated in 2 wells during the year, both of which were dry. One was a 6,470-foot Canyon Sand test on our South Eldorado prospect in Schleicher County, Texas and the other was a 6,280-foot Mississippian test in Meade County, Kansas. At South Eldorado a follow up well will be drilled by a third party at no cost to Page. After the well is drilled the Company will have an 11% working interest in 3,200 acres.

John's Creek, Texas

Page owns 12½% interest in 3,200 acres of leases and 25% in 6,100 acres of leases on the John's Creek prospect. Late in 1976, an offset well, Paramount Producing #1 Bud Brainard, was completed as a gas discovery. This well has a calculated open flow potential of 11 mmcf per day from the Upper Morrow formation at 7,800 feet and 1.4 mmcf per day from the Lower Morrow. Geological studies indicate that up to five sections of Page leases could be productive. The first well on Company lands is to be drilled in May. Initial production from the discovery well is expected to be 4 mmcf per day with the gas price, including B.T.U. adjustment, exceeding \$1.65 per mcf.



OPERATIONS

LAND

CANADA

Alberta	62,389	22,143	44,614	888
Saskatchewan	7,516	3,844	640	64
Arctic Islands	603,779	32,293	903,517	2,711

Working Interest

Gross Acres	Net Acres
673,684	58,280

Royalty Interest

Gross Acres	Net Acres
948,771	3,663

UNITED STATES

Kansas	2,800	1,024	—	—
Texas	22,912	3,802	2,560	22
Alaska	236,194	29,524	—	—

261,906	34,350
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2,560	22
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UNITED KINGDOM

Onshore	137,940	27,140	—	—
Offshore	565,686	19,455	—	—

703,626	46,595
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ITALY

Adriatic Sea	—	—	14,715	110
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1,639,216	139,225	966,046	3,795
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PRODUCTION

	1976		1975	
	Gross	Net	Gross	Net
CRUDE OIL AND LIQUIDS (barrels)				
Alberta	113,598	60,710	120,695	64,843
Saskatchewan	—	—	1,200	711
Texas	11,122	7,841	22,291	15,605
	<u>124,720</u>	<u>68,551</u>	<u>144,186</u>	<u>81,159</u>
Average daily production	<u>341</u>	<u>187</u>	<u>395</u>	<u>222</u>
Average price per barrel — Canada		\$ 8.37		\$ 7.41
— U.S.A.		\$ 12.63		\$ 11.87
NATURAL GAS (mcf)				
Alberta	46,929	35,599	41,230	28,172
Texas	117,192	83,749	149,333	104,533
	<u>164,121</u>	<u>119,348</u>	<u>190,563</u>	<u>132,705</u>
Average daily production	<u>448</u>	<u>326</u>	<u>522</u>	<u>364</u>
Average price per mcf — Canada		\$ 1.08		\$.38
— U.S.A.		\$.72		\$.41

RESERVES

	Jan. 1, 1977		Jan. 1, 1976	
	Gross	Net*	Gross	Net*
Oil — (thousands of barrels)				
proven — Alberta	2,471	1,481	2,208	1,327
— Texas	204	144	224	157
probable — Alberta	1,852	1,384	1,400	1,105
— Saskatchewan	—	—	520 ⁽³⁾	227
Total Oil	<u>4,527⁽¹⁾</u>	<u>3,009</u>	<u>4,352</u>	<u>2,816</u>
Gas — (mmcf)				
proven — Alberta	3,747 ⁽²⁾	2,638	2,749	1,868
— Texas	2,016	1,467	1,990	1,412
probable — Alberta	4	4	222	149
Total Gas	<u>5,767</u>	<u>4,109</u>	<u>4,961</u>	<u>3,429</u>

* Net reserves reflect royalties in effect on January 1 of each year.

Note (1) All of these reserves are light-gravity crude in established areas of Alberta and Texas.

Note (2) 578 mmcf (284 mmcf net) are in areas unlikely to be connected to market before 1980 and an additional 1,275 mmcf (913 mmcf net) are in established areas but are not under contract.

Note (3) Heavy-gravity oil in the Buffalo Coulee field of Saskatchewan. Page still owns these properties but has no plans to develop them in 1977.

CORPORATE ACQUISITIONS

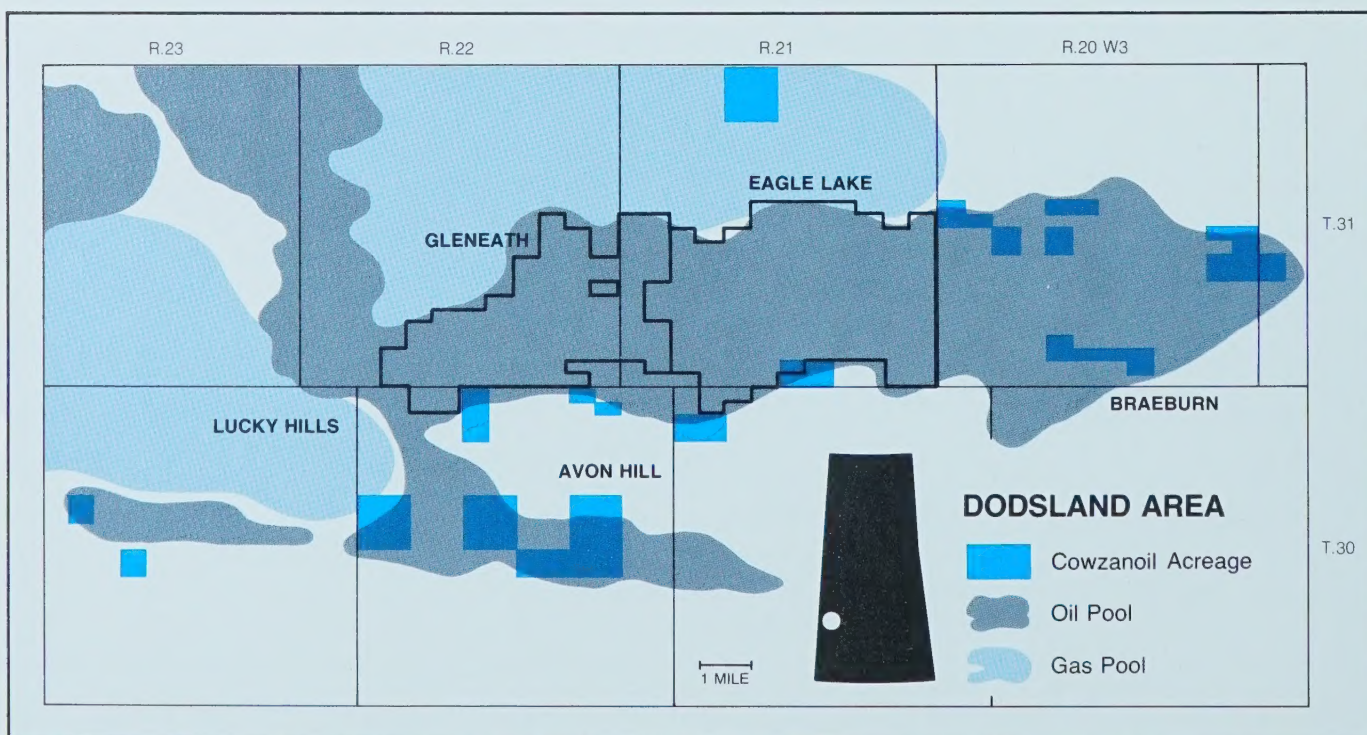
Page has concluded an agreement to acquire all the shares of two privately owned oil producing companies, Cowzanoil Ltd. and Magnolia Petroleum Ltd. in exchange for 392,776 shares of Page Petroleum Ltd. The companies will be operated as wholly owned subsidiaries of Page Petroleum. The acquisition, to be effective April 1, 1977, is subject to the approval of the Foreign Investment Review Agency, and other applicable regulatory bodies.

The acquisitions will provide Page with an estimated additional net oil revenue of \$400,000 in 1977. The Cowzanoil and Magnolia producing operations are in areas where Page also has undeveloped proven and exploratory lands.

Especially significant to the Company is that Mr. T. J. Jacobsen, President of Cowzanoil, will be joining Page as Vice-President of Operations and Mr. G. J. Greenslade, President of Magnolia, will be joining as Production Manager, Southwest Saskatchewan.

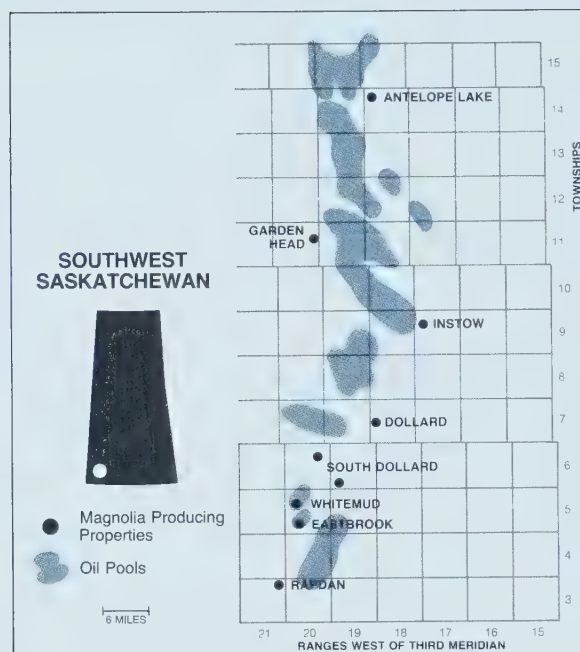
Cowzanoil Ltd.

Cowzanoil, an Alberta corporation, owns and operates 45 producing oilwells in the Dodsland, Avon Hill and Lucky Hills fields, Saskatchewan and 3 oilwells in the nearby Buffalo Coulee field. In addition, it owns interests in the Eagle Lake and Gleneath Units and 1,600 acres of undeveloped proven and semi-proven lands at Dodsland. Cowzanoil maintains field personnel and operating equipment at Kindersley, Saskatchewan. The Company has production, after royalties, of 180 barrels per day yielding \$30,000 net oil revenue per month. An independent engineering firm has calculated the proven oil reserves of Cowzanoil, after royalties, to be 700,000 barrels.



Magnolia Petroleum Ltd.

Magnolia, a Saskatchewan corporation, owns and operates 11 producing oilwells in southwestern Saskatchewan. The company also trucks crude for its own account and for other companies in the area. Consulting engineers calculate the proven oil reserves to be 300,000 barrels, after royalties. The company produces 100 barrels per day, after royalties, which yield net oil revenue of \$15,000 per month.



AUDITORS' REPORT

To the Shareholders
Page Petroleum Ltd.

We have examined the consolidated balance sheets of Page Petroleum Ltd. as at December 31, 1976 and 1975 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and 1975 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
March 16, 1977

COLLINS BARROW
Chartered Accountants



CONSOLIDATED BALANCE SHEETS

December 31, 1976 and 1975

ASSETS

CURRENT ASSETS

Cash and marketable securities	\$ 94,385	\$ 196,753
Accounts receivable	447,589	396,104
Provincial royalty tax credit receivable	98,324	162,376
Inventory, at cost	—	1,134
Prepaid expenses	12,553	873

1976

1975

(Restated)

652,851

757,240

PROPERTY, PLANT AND EQUIPMENT — NET (Note 3)	4,292,955	3,564,397
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OTHER ASSETS

Drilling and exploration deposits	22,761	23,461
Unamortized deferred financing charges	27,425	31,740
Notes receivable (note 4)	149,254	155,086

199,440

210,287

Approved on behalf of the Board,

LAWTON L. CLARK, Director

C. D. GOULD, Director

\$5,145,246

\$4,531,924

The accompanying notes are an integral part of these consolidated financial statements.

	<u>1976</u>	<u>1975</u> (Restated)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 401,043	\$ 429,844
Current portion of long term debt (notes 5 and 6)	<u>160,900</u>	<u>135,072</u>
	<u>561,943</u>	<u>564,916</u>
 LONG TERM DEBT		
Production and development loans (note 5)	2,158,231	1,471,233
7% convertible subordinated debentures (note 6)	<u>250,000</u>	<u>375,000</u>
	<u>2,408,231</u>	<u>1,846,233</u>
 DEFERRED INCOME TAXES (note 11)	<u>344,424</u>	<u>300,924</u>
 SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 8)		
Authorized		
5,000,000 common shares without par value		
Issued		
1,410,086 shares (1975 — 1,408,486 shares)	1,283,847	1,279,847
Contributed surplus	250,311	250,311
Retained earnings	<u>296,490</u>	<u>289,693</u>
	<u>1,830,648</u>	<u>1,819,851</u>
	<u>\$5,145,246</u>	<u>\$4,531,924</u>

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 1976 and 1975

	1976	1975
INCOME		
Oil and gas sales, net of royalties	\$ 708,875	\$ 756,923
Drilling arrangements and other fees	—	52,186
Investment and other income	10,707	14,785
	<u>719,582</u>	<u>823,894</u>
EXPENSES		
Production	131,896	83,512
General and administrative	190,327	190,426
Interest (note 10)	218,696	146,315
Depreciation	28,803	33,769
Depletion	155,700	168,701
Amortization of foreign exploration costs	30,000	30,000
Amortization of deferred financing charges	12,347	8,858
	<u>767,769</u>	<u>661,581</u>
INCOME (LOSS) BEFORE INCOME TAXES	(48,187)	162,313
INCOME TAXES		
Deferred (note 11)	43,500	106,554
Provincial royalty tax credit	(98,484)	(101,376)
	<u>(54,984)</u>	<u>5,178</u>
NET INCOME FOR THE YEAR	\$ 6,797	\$ 157,135
EARNINGS PER SHARE (note 1(e))	\$.005	\$.11

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31, 1976 and 1975

	1976	1975
Retained earnings, beginning of year	\$ 289,693	\$ 132,558
Net income for the year	6,797	157,135
Retained earnings, end of year	<u>\$ 296,490</u>	<u>\$ 289,693</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1976 and 1975

	1976	1975
SOURCES OF FUNDS		
Net income for the year	\$ 6,797	\$ 157,135
Charges to income not involving funds:		
Depreciation, depletion and amortization	226,850	241,328
Deferred income taxes	43,500	106,554
Other	488	—
Funds generated from operations	277,635	505,017
Issuance of capital stock	4,000	—
Proceeds of production and development loans	1,090,000	659,405
Decrease in drilling and exploration deposits	700	10,243
Decrease in notes receivable	5,832	—
Total sources of funds	<u>1,378,167</u>	<u>1,174,665</u>
USES OF FUNDS		
Net additions to property, plant and equipment	943,550	822,397
Repayment and current maturities of long term debt	528,001	329,472
Additions to deferred charges	8,032	—
Total uses of funds	<u>1,479,583</u>	<u>1,151,869</u>
Increase (decrease) in working capital	(101,416)	22,796
Working capital, beginning of year	192,324	169,528
Working capital, end of year	<u>\$ 90,908</u>	<u>\$ 192,324</u>
WORKING CAPITAL CHANGES		
Increase (decrease) in current assets		
Cash and marketable securities	\$ (102,368)	\$ 157,792
Accounts receivable	51,485	220,973
Income taxes receivable — provincial	(64,052)	101,376
Inventories	(1,134)	(70,279)
Prepaid expenses	11,680	(5,827)
	<u>(104,389)</u>	<u>404,035</u>
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	(28,801)	306,167
Current portion of long term debt	25,828	135,072
Bank operating loan	—	(60,000)
	<u>(2,973)</u>	<u>381,239</u>
Increase (decrease) in working capital	<u>\$ (101,416)</u>	<u>\$ 22,796</u>

The accompanying notes are an integral part of these consolidated financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1976 and 1975

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Page Petroleum Ltd. and its wholly owned subsidiaries. Where the purchase price of shares of subsidiaries exceeded their net book values, the excess has been allocated to the related assets acquired and additional depreciation has been provided accordingly. All intercompany transactions have been eliminated on consolidation.

(b) Full cost method of accounting

The Company follows the full cost method of accounting for its operations wherein all costs relative to the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing properties, cost of drilling both productive and non-productive wells and administrative expenses related to exploration activities. Proceeds on disposal of properties are ordinarily deducted from accumulated costs without recognition of profit or loss. Exploration and development costs are accumulated in two major cost centres:

1. North America — Canada and the United States
2. Northwestern Europe — United Kingdom and the North Sea

Costs associated with the North American cost centre are depleted using the unit production method based on estimated recoverable North American reserves as determined by independent and Company engineers.

Effective January 1, 1974, costs associated with the Northwestern Europe cost centre are being amortized on a straight-line basis at the rate of 20%. Should exploratory efforts be successful, the balance of unamortized exploration costs will be carried forward and combined with subsequent exploration and development costs incurred and will be depleted on the unit of production method. If all of the exploratory rights are surrendered, the balance of the unamortized exploration costs will be charged to income (included in amortization). At December 31, 1976 costs remaining to be amortized amount to \$87,806.

(c) Depreciation

Depreciation of production equipment is also provided for on the unit of production method. Depreciation of sundry equipment is computed on the diminishing balance method at rates of 20% and 30%. Maintenance and repairs are charged to income as incurred and major renewals and betterments are capitalized.

(d) Income taxes

The Company follows the tax allocation method of accounting for all timing differences between taxable income and recorded income including differences relative to exploration and development expenditures. Under this method, provisions for deferred income taxes are made currently on the excess of deductions claimed for tax purposes over the related depletion, depreciation and other charges recorded in the accounts on the premise that such taxes will become payable in future years when recorded charges exceed the amounts available for tax purposes.

(e) Net income per share

Net income per share is based on the weighted average number of shares outstanding during the year which for 1976 was 1,408,753 (1975 — 1,408,486). The conversion of the 7% convertible debentures would not be dilutive.

(f) Unamortized deferred financing charges

Deferred financing charges of \$60,704 associated with the issuance of the 7% convertible debentures are being amortized on a straight-line basis over the term of the debenture issue. To December 31, 1976, \$41,311 has been charged to income (1976 — \$12,347; 1975 — \$8,857; 1974 — \$15,325; 1973 — \$4,782). Deferred charges of \$8,032 pertaining to the evaluation of properties as required under the 7% Debenture Indenture was added during 1976.

2. LIMITED PARTNERSHIP

Page Petroleum Inc., a wholly owned U.S. subsidiary of the Company, is the sole general partner of Page 1975 Ltd., a limited partnership formed under the laws of the State of Texas for the purpose of exploring for oil and gas. Under the terms of the partnership agreement, all of the expenditures and income from producing wells are shared 35% to the general partner and 65% to the limited partners. The company is also the sole general partner of Page 1975 Alberta, a limited partnership formed under the laws of the Province of Alberta, for the purpose of exploring for oil and gas. This partnership, subsequent to an eight-well drilling program of which only two gas wells are considered to be of marginal interest, is in the process of dissolution through the sale of its remaining assets.

The Company's investment in the limited partnerships is reflected on a proportionate basis.

3. PROPERTY, PLANT AND EQUIPMENT

	<u>Assets, at cost</u>	<u>Accumulated depletion, depreciation and amortization</u>	<u>Net investment</u>
December 31, 1976			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	\$3,199,990	\$516,112	\$2,683,878
United States	1,107,827	118,860	988,967
Northwestern Europe	178,138	90,333	87,805
	<u>4,485,955</u>	<u>725,305</u>	<u>3,760,650</u>
Production equipment	655,916	151,277	504,639
Sundry	65,360	37,694	27,666
	<u>\$5,207,231</u>	<u>\$914,276</u>	<u>\$4,292,955</u>
December 31, 1975			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	\$2,555,055	\$387,912	\$2,167,143
United States	930,960	91,360	839,600
Northwestern Europe	164,420	60,333	104,087
	<u>3,650,435</u>	<u>539,605</u>	<u>3,110,830</u>
Production equipment	548,271	130,414	417,857
Sundry	86,795	51,085	35,710
	<u>\$4,285,501</u>	<u>\$721,104</u>	<u>\$3,564,397</u>



4. NOTES RECEIVABLE

	<u>1976</u>	<u>1975</u>
a) On May 26, 1973 the Company and a senior officer entered into a share purchase agreement for 45,000 shares at \$2.00 per share. An amending agreement dated September 17, 1976 was entered into with the Company whereby provision for the cancellation of shares upon non-payment has been deleted and the installment payments have been amended whereby the second installment becomes due May 26, 1978 and the final installment becomes due May 26, 1979		
Balance outstanding	\$ 60,000	\$ 60,000
b) To enable a senior officer to exercise his stock options in 1973, the Company loaned him the necessary funds on 4% promissory notes repayable in five annual installments. In 1976 the company has amended the due date for the next installment to February 28, 1978		
Balance outstanding	78,334	78,334
c) Other		
The balance of the notes is receivable from a former employee and senior officer. The notes are repayable in annual installments of approximately \$2,000 until fully paid.		
Balance outstanding	10,920	16,752
	<u>\$149,254</u>	<u>\$155,086</u>

Notes receivable have, in prior years, been deducted from issued capital stock. These amounts have been reclassified as other assets.

5. PRODUCTION AND DEVELOPMENT LOANS

The production and development loans are comprised of the following:

	<u>1976</u>	<u>1975</u>
Notes payable	\$ 69,294	\$ 153,202
Less: Estimated portion due within one year	39,900	74,072
	29,394	79,130
Development loans	83,337	106,203
Bank production loan	2,045,500	1,285,900
	<u>\$2,158,231</u>	<u>\$1,471,233</u>

Notes payable represent an advance by an equipment leasing company in the United States for wellhead equipment with repayment to be made within 90 months from the date of advance. The current portion represents the next 12 months of payments due computed from the fixed schedule of repayments which is appended to the equipment leasing agreement.

Development loans represent prepayment for oil and gas received from the purchasers of crude oil and natural gas on a portion of the U.S. production with repayments to be made from production. The oil repayment is to be made at \$2.00 per barrel sold and the gas at 25% of 75% of net gas revenue received.

The bank production loan is secured by a general assignment of accounts receivable and certain specific oil and gas properties. The production loan is repayable from proceeds of production in monthly installments of approximately \$34,700.

6. 7% CONVERTIBLE SUBORDINATED DEBENTURES DUE AUGUST 1, 1979

The debentures are secured by way of a floating charge in favor of the trustee on all of the Company's assets and undertakings.

The indebtedness evidenced by the debentures is subordinate to the prior payment in full of the senior indebtedness of the Company which at December 31, 1976 was comprised of the bank production loan.

The debentures are convertible into common shares of the Company at the following prices:

\$2.50 per share — August 1, 1973 - August 1, 1977

\$3.25 per share — August 2, 1977 - August 1, 1978

\$4.00 per share — August 2, 1978 - August 1, 1979

Sinking fund payment requirements on the debentures during the next three years are as follows: 1977 — \$125,000; 1978 — \$125,000; 1979 — \$125,000. The annual requirements may be satisfied in part or in whole by the conversion of the debentures into common shares. In 1973 and 1974 such conversions amounted to an equivalent of \$64,000 in debentures and in 1976 a redemption in the amount of \$61,000 was made. On November 2, 1976 a conversion of 1,600 shares took place thereby reducing the 1977 sinking fund requirement by \$4,000.

7. COMMITMENTS AND GUARANTEES

There were no outstanding commitments with respect to the retention of oil and gas exploratory permits held by the Company.

8. CAPITAL STOCK

(a) Issued stock of the Company consists of the following:

	Number of Shares	Stated Value
Balance, December 31, 1975	1,408,486	\$1,279,847
Conversion of 7% convertible subordinated debentures	1,600	4,000
Balance, December 31, 1976	<u>1,410,086</u>	<u>\$1,283,847</u>

(b) Outstanding stock options and debenture conversion privileges at December 31, 1976:

1. Stock options
70,000 shares (1975 — 70,000 shares) at an exercise price of \$1.52 expiring July 4, 1978.
2. Conversion of 7% convertible subordinated debentures
148,400 shares (1975 — 174,400 shares) at \$2.50 per share expiring August 1, 1977 (note 6).

9. EXECUTIVE REMUNERATION

The total remuneration paid to directors and senior officers of the companies (defined by the Alberta Securities Act as the five highest paid employees) amounted to \$140,065 (1975 — \$150,474).

10. INTEREST EXPENSE

	1976	1975
Interest expense is comprised of:		
Long term debt		
7% convertible subordinated debentures	\$ 27,068	\$ 30,520
Bank production and development loans	191,628	115,795
	<u>\$218,696</u>	<u>\$146,315</u>



11. DEFERRED INCOME TAXES

Deferred income tax expense results from timing difference in the recognition of certain expenditures for tax and financial statement purposes. The sources of these differences in 1976 and 1975 and the tax effect on each were as follows:

	1976	1975
Excess of tax capital cost allowance over book write-off for depreciable assets	\$ 35,645	\$ 47,897
Excess of tax write-off over book write-off for exploration expenses, intangible drilling expenditures and lease acquisition costs	7,855	58,657
	<u>43,500</u>	<u>106,554</u>
Provincial royalty tax credit on royalties not deductible for federal tax purposes	(98,484)	(101,376)
	<u>\$(54,984)</u>	<u>\$ 5,178</u>

Based on currently anticipated expenditures and operations, it is not expected that the deferred income tax balance will be substantially reduced in the succeeding two years.

Total income tax expense in 1976 was a credit of \$54,984 due to a credit of \$98,484 pertaining to an amount receivable from the Government of Alberta on crown royalties paid during the year. This net income tax credit of \$54,984 is \$48,682 lower than the computed "expected" tax by applying the Canadian and United States federal tax rates of 47% and 48%, respectively, to income before tax after allowing for permanent timing differences which will never be deductible from income for tax purposes.

Income before income taxes	\$(48,187)
Add: Depreciation of purchase discrepancy	4,000
Amortization of foreign exploration costs	30,000
	<u>\$(14,187)</u>
Allocation	
Canada	\$(50,813)
United States	36,626
	<u>\$(14,187)</u>

The reasons for the difference between income tax expense and "expected" income tax expense are as follows:

	Canada		United States	
	Dollars	Percent of Income	Dollars	Percent of Income
Computed "expected" tax expense	\$ (23,882)	47	\$ 17,580	48
Increase (decrease) in taxes resulting from:				
Non-deductible royalties	185,270		—	
Tax depletion	(20,054)		(8,790)	
Resource allowance	(80,753)		—	
Tax reductions	(24,591)		(5,128)	
Other	3,848		—	
Provincial royalty tax credit	(98,484)		—	
	<u>\$ (58,646)</u>		<u>\$ 3,662</u>	

12. DISTRIBUTION RESTRICTIONS RELATING TO THE 7% DEBENTURE

The Company will not, nor will it permit its subsidiaries to, in any year during the currency of the trust indenture, relating to the 7% debenture:

1. declare or pay dividends on any of its shares at any time outstanding; or
2. redeem, reduce, purchase or otherwise pay off any of its shares at any time outstanding; or
3. elect to pay any tax on undistributed income under the provisions of the Income Tax Act

unless immediately after giving effect to such action the aggregate amount;

- (a) declared and/or paid subsequent to the preceding December 31 as dividends on all shares of all classes of the Company's capital stock; and
- (b) distributed and/or paid (on redemption, reduction, purchase or other payment off) subsequent to the preceding December 31 in respect of all shares of all classes of the Company's capital stock; and
- (c) elected to be paid as tax on undistributed income under the provisions of the Income Tax Act;

will be not more than the aggregate of the consolidated net earnings available for dividends of the Company and its subsidiaries subsequent to the preceding December 31.

13. ANTI-INFLATION:

The Company is subject to the provisions of the Anti-Inflation Act and Regulations governing the amount of dividend payments and as a result, the amount of dividends which may be paid subsequent to October 13, 1975 is restricted.

FIVE YEAR STATISTICAL SUMMARY

FINANCIAL

	1976	1975	1974	1973	1972
INCOME					
Oil and gas sales	\$1,239,974	\$1,304,288	\$ 882,435	\$ 510,496	\$ 358,233
Royalties paid	531,099	547,365	356,318	142,764	79,469
Net oil and gas sales	708,875	756,923	526,117	367,732	278,764
Interest and other income	10,707	66,971	147,796	87,646	103,171
GROSS INCOME	719,582	823,894	673,913	455,378	381,935
Production expenses	131,896	83,512	49,980	46,605	32,991
General and administrative (net)	190,327	190,426	197,175	197,586	138,349
Interest expense	218,696	146,315	136,235	33,568	13,918
FUNDS GENERATED from operations	277,635	505,017	351,523	177,619	196,677
Per common share	0.20	0.36	0.25	0.13	0.15
Depreciation, depletion, amortizations	226,850	241,328	171,814	102,009	66,321
Deferred income taxes	43,500	106,554	104,817	24,371	45,059
Provincial royalty tax credit	(98,484)	(101,376)	(61,000)	—	—
NET INCOME	6,797	157,135	74,892	51,239	85,297
Per share	.005	0.11	0.05	0.04	0.07
BALANCE SHEET					
Working capital (deficiency)	90,908	192,324	169,528	(19,232)	134,586
Property and equipment	4,292,955	3,564,397	2,974,471	2,335,110	1,293,964
Other assets	199,440	210,287	229,387	269,079	33,291
CAPITAL EMPLOYED	4,583,303	3,967,008	3,373,386	2,584,957	1,461,841
Deduct: Long-term debt	2,408,231	1,846,233	1,516,300	977,500	183,200
Deferred income taxes	344,424	300,924	194,370	89,553	65,182
Shareholders' equity ⁽¹⁾	1,830,648	1,819,851	1,662,716	1,517,904	1,213,459
Common shares outstanding	1,410,086	1,408,486	1,408,486	1,380,718	1,272,053

(1) See Note 4 — Notes to Consolidated Financial Statements.

OPERATIONS

	1976	1975	1974	1973	1972
LAND HOLDINGS (working interest)					
Gross Acreage Held	1,639,000	2,482,000	4,150,000	3,896,000	2,957,000
North America — Net	92,400	138,000	315,000	315,000	251,000
Overseas — Net	46,600	178,000	307,000	307,000	307,000
TOTAL NET ACREAGE	139,000	316,000	622,000	622,000	558,000
DRILLING ACTIVITY					
Gross wells drilled	11	60	19	46	19
Net wells drilled	2.4	6.6	3.8	6.1	3.1
Productive	1.5	3.3	0.8	2.5	1.1
Dry	0.9	3.3	3.0	3.6	2.0
PRODUCTION — gross (before royalties)					
Crude oil — barrels	124,720	14,186	141,369	142,678	116,331
Average daily, barrels	341	395	387	391	319
Natural gas — mcf	164,121	190,563	103,000	82,000	87,000
Average daily, mcf	448	522	282	225	238
GROSS RESERVES — proven and probable					
Crude oil — thousand barrels	4,527	4,352	3,382	3,522	2,550
Natural gas — mmcf	5,767	4,961	4,510	3,273	1,914

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

FINANCIAL

Gross Income in 1976, amounting to \$719,582, decreased by \$104,312 (12.7%) from the \$823,894 earned in 1975. Net oil and gas sales decreased by \$48,048. The reduction in oil and gas revenues, due to lower allowables in Alberta and declining production in the U.S., was in large part offset by increased product prices in both areas. Investment and other income declined to \$10,707 from \$66,971 in 1975, mainly because of a reduction in management fees of \$52,000.

Expenses increased by \$106,188 from \$661,581 in 1975 to \$767,769 in 1976. Contributing factors were the addition of new fields, causing production expenses to rise by \$48,000, and higher production loans, increasing interest expense by \$72,000.

The Alberta Royalty Tax Credit, designed to offset Federal income taxes on provincial royalties, resulted in the Company's receiving a tax credit of \$98,484 in 1976 compared to \$101,376 in 1975.

Net income in 1976 amounted to \$6,797 as compared with \$157,135 in 1975, showing a decline of \$150,338 as a result of lower sales and increased costs.

Funds generated from operations amounted to \$277,635 or 20 cents per share, down \$227,382 (45.0%) from \$505,017 or 36 cents per share in 1975. The reduced cash flow, resulting from lower income and higher expenses, necessitated additional bank borrowings of \$1,090,000 in order to carry out the 1976 capital program costing \$944,000 and retire debt to the extent of \$528,000.

Working capital at the end of 1976 was \$90,908, down \$101,416 from \$192,324 at the end of 1975.

DRILLING OPERATIONS

Page participated in the drilling of 11 wells during the year, 2 of which were operated by the Company. The cost of finding and developing new reserves amounted to \$944,000 in 1976 as compared with \$822,000 in 1975.

LAND HOLDINGS

The Company added 5,455 gross lease acres in Alberta in 1976 and dropped 45,776 gross lease and reservation acres as being no longer prospective. In the United States, 3,250 gross lease acres on new prospects were added to the land inventory while 5,732 gross lease acres were dropped. In the Arctic, the company plans no new acquisitions and permits are dropped as prepaid land rentals expire. In 1976, Page's Arctic holdings were reduced by 527,898 gross acres. A similar situation exists in the U.K., where the company dropped 298,883 gross acres. In most instances, U.K. licences will be allowed to lapse rather than incur further expenditures. In Italy, a small overriding royalty is retained at no cost to the Company.

PRODUCTION

New production came on stream at Boundary Lake and Golden Spike in Alberta. This new oil did not compensate for reduced allowables at Mitsue. No new U.S. oil properties came on stream in 1976. Gas production in Texas increased as gas/oil ratios increased in the Spaberry wells, and with the addition of overriding-royalty interest gas in the West Block 16 field.

RESERVES

The Company continued to develop its proven and semi-proven light-gravity oil reserves in Alberta. New reserves were added at Boundary Lake and Worsley and production was recommenced at Golden Spike after a sour-gas problem was rectified. The Company added 874,000 gross barrels of oil and 1,307 gross mmcf of gas to its reserves inventory. Production amounted to 125,000 gross barrels of oil and 164 gross mmcf of gas. In addition, a downward adjustment of 574,000 gross barrels of oil and 337 gross mmcf of gas was required because of mechanical and reservoir problems in the field or because, in management's opinion, development of the reserves would be delayed for several years.

